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SUBJECT: LEBANON: STOCK MARKET BEGINS CORRECTION PHASE, TOURIST
SEASON LOOKS GOOD (ECONOMIC WEEK IN REVIEW, MAY 26 - June 1, 2008)

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SHARES ON THE BEIRUT STOCK
EXCHANGE ENTER CORRECTION PHASE

¶1. (SBU) The prices of listed shares on the Beirut Stock Exchange (BSE) started to drop the beginning of the week of May 26, due to technical factors and some profit taking, BSE president Dr. Fadi Khalaf told us on May 28. Khalaf explained that the market is in "a correction phase," after the substantial rise in prices of listed shares immediately following the recent political crisis (reftel).

RUMORS OF INVESTMENTS
IN SOLIDERE

¶2. (SBU) Following rumors that Saudis and the Hariri family were the main buyers of real estate company Solidere shares, BSE president Dr. Fadi Khalaf said that, by regulation, the BSE cannot disclose names of investors in the market, adding that this is equivalent to bank secrecy. Khalaf explained that in the absence of a regulatory body -- similar to the U.S. SEC -- the BSE cannot know who the investors are when shares are acquired by large banks or financial institutions through fiduciary accounts. By law, no investor can hold more than ten percent of Solidere shares, but there are rumors that some of the Solidere shares are held by front-men or institutions.

¶3. (SBU) Meanwhile, prominent Sunni businessman Abdel Wadoud Nsouli, who is also close to the Hariri family, told us on May 28 that

several Lebanese and foreign investors were buying Solidere shares; not only Saudi investors and the Hariri family. He explained that Solidere shares are undervalued, noting that Solidere holds 35 percent of Solidere International, a company that has large successful development projects in Jordan and the Gulf. Nsouli remarked that real estate in Lebanon is cheaper than in the neighboring countries, and that investors from the Emirates and the Gulf have been buying more Lebanese property recently (reftel).

FISCAL DEFICIT DOWN IN THE
FIRST QUARTER OF 2008

¶14. (U) Figures released by the Ministry of Finance show that the overall public fiscal deficit accounted for 24.7 percent of total expenditures, down from 31.9 percent in the first quarter of 2007. Overall government expenditures reached \$2.18 billion, up by 5.6 percent relative to the same period in 2007, while total revenues increased by 16.7 percent to \$1.64 billion. Debt servicing increased by 2.2 percent and totaled \$724.5 million, accounting for 33 percent of total expenditures. The overall primary surplus reached \$258 million or 11.84 percent of total spending.

GROSS PUBLIC DEBT EXCEEDED
\$43 BILLION BY END OF MARCH 2008

¶15. (U) According to the Central Bank of Lebanon (CBL), Lebanon's gross public debt reached \$43.1 billion at the end of March 2008, up by 2.5 percent compared to December 2007. Domestic debt rose by 3.8 percent in the first quarter of 2008, reaching \$21.6 billion, while external debt rose by 1.18 percent, reaching \$21.5 billion in March

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¶12008. Foreign currency-denominated debt accounted for 49.9 percent of gross public debt, while local currency debt represented 50.1 percent of the total. Gross public debt amounted to 171 percent of GDP at the end of 2007, down from 178 percent at the end of 2006.

EXPECTATIONS ARE HIGH
FOR A PROSPEROUS TOURIST SEASON

¶16. (U) Local and international press has been reporting high expectations for a prosperous tourist season following the political agreement that ended Lebanon's most recent crisis. It has been reported that hotels have been flooded with reservations since last week. According to Tourism Minister Joe Sarkis, by the end of April 2008, only 280,000 tourists had come to Lebanon; however he expected the total number of tourists in 2008 to be between 1.3-1.6 million.

POLITICAL WILL KEY TO MOVE ON
WITH MOBILE PRIVATIZATION

¶17. (SBU) Chairman of the Telecommunications Authority (TRA) and Secretary General of the Higher Council for Privatization (HCP) told us separately on May 29 that political will is the key to move ahead with privatization. Both are waiting for the next cabinet to be formed, and a ministerial statement clearly renewing GOL commitment to privatization. If so, the mobile auction can take place in September 2008, TRA Chairman said.

MINISTRY OF CULTURE TO START AMENDING
LAW ON LITERARY AND ARTISTIC PROPERTY

¶18. (SBU) Director General of the Ministry of Culture Dr. Omar Halablab told us on May 30 that he will begin amending Law 75 on the Protection of Literary and Artistic Property, in cooperation with the World Intellectual Property Organization (WIPO). The main focus will be on amending the articles dealing with exceptions given to reproducing protected works for academic use. Meanwhile, the Ministry is planning to hold a seminar in July on collective rights

of those involved in the music industry. Halablab is interested in receiving US IPR experts to train his staff, and welcomed the idea of sending people from the Ministry to attend USPTO trainings.

INTERNAL SECURITY FORCES
DESTROY MORE PIRATED GOODS

¶9. (U) On May 29, the Cyber Crime and IP Bureau of the Internal Security Forces (ISF) destroyed more than 80,000 confiscated pirated CDs and DVDs, containing movies, music, games, and computer programs. English newspaper The Daily Star estimated the value of the destroyed goods at around \$5 million. The Cyber Crime and IP Bureau has been very successful in combating IP violations in recent years.

TELECOMMUNICATIONS PENETRATION
LOW IN LEBANON FOR 2007

¶10. (U) According to the UN's International Telecommunications Union (ITU) 2007 annual telecommunications statistics, Lebanon ranked 79 out of 207 surveyed countries and seven out of 20 MENA region countries in terms of internet penetration. The ITU indicated that the internet penetration rate in Lebanon was 26.6 percent, with 950,000 internet users. In terms of the ratio of total telephone subscriptions to total population, Lebanon ranked 125 globally and 15 in the MENA region.

LEBANON' ECONOMY VULNERABLE
ACCORDING TO S&P

¶11. (U) Standard & Poor's (S&P) Liquidity Vulnerability Index (LVI) ranked Lebanon second most vulnerable economy in terms of external financing needs, among 40 emerging market economies surveyed, based on an assumed worsening of the global credit crisis. Out of six countries from the MENA region included in the index, Lebanon was

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the only country in the "vulnerable" category. S&P considers the level of a country's vulnerability related directly to its degree of dependence on foreign capital inflows to finance external imbalances and avert balance-of-payments crises.

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